



Chairman and Ranking Minority Member,
Subcommittee on Readiness and
Management Support, Committee on
Armed Services, U.S. Senate

November 2000

CONTRACT MANAGEMENT

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Contents

Letter	3
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Appendixes		
	Appendix I: Scope and Methodology	14
	Appendix II: Information on Selected Orders	15
	Appendix III: Comments From the General Services Administration	17
	Appendix IV: Comments From the Office of Federal Procurement Policy	21
	Appendix V: GAO Contacts and Staff Acknowledgments	23

United States General Accounting Office
Washington, D.C. 20548

November 28, 2000

The Honorable James M. Inhofe
Chairman
The Honorable Charles S. Robb
Ranking Minority Member
Subcommittee on Readiness and
Management Support
Committee on Armed Services
United States Senate

Federal spending for goods and services has changed significantly in recent years. The government now spends more on services—ranging from basic maintenance to running computer systems—than on supplies and equipment. The government acquisition process has also changed in terms of how the government buys. In particular, the process has become more streamlined as new contract vehicles and techniques have allowed agencies to buy what they need much faster than in the past.¹ To streamline its own acquisitions, the Department of Defense (DOD) is making extensive use of contracts awarded by other agencies, including contracts that the General Services Administration (GSA) awards to multiple companies supplying comparable products and services under the Federal Supply Schedule.²

In view of concerns that there is inadequate oversight and accountability over using new contract vehicles and techniques to acquire services faster, you requested that we assess whether DOD is using the Federal Supply Schedule to purchase information technology services in a manner that maximizes competition. As agreed with your offices, our specific objectives were to assess whether contracting officers were following established procedures to ensure fair and reasonable prices and whether guidance and regulations regarding purchases under the Federal Supply Schedule were

¹ A General Services Administration-contracted study found that it takes only 15 days to place an order under a Federal Supply Schedule contract versus 268 days to award a contract using the traditional method.

² The Federal Supply Schedule is also called the Multiple Award Schedule (MAS). Under the program, GSA negotiates contracts with vendors for a wide variety of mostly commercial-type products and services at varying prices. These contracts permit other agencies to place orders directly with the vendors.

adequate. We did not assess whether DOD in fact obtained fair and reasonable prices on specific orders.

In conducting our review, we identified four large buying commands, including one for each military department. From these four commands, we selected the largest orders for information technology services purchased in fiscal year 1999 using the Federal Supply Schedule. In total, 22 orders were selected, which represented about \$112.7 million. Appendix I contains details on our scope and methodology.

Results in Brief

Most DOD contracting officers included in our review did not follow GSA's established procedures intended to ensure fair and reasonable prices when using the Federal Supply Schedule. In fact, 17 of the 22 orders—valued at \$60.5 million—were placed without seeking competitive quotes from multiple contractors. Instead, in placing the 17 orders, contracting officers often relied just on a comparison of labor rates of various contractors listed on the Federal Supply Schedule and generally ended up placing the orders with incumbent contractors. Relying on labor rates alone does not offer an agency a good basis for deciding which contractor is the most competitive since it does not reflect the full cost of the order or even critical aspects of the service being provided, such as the number of hours and mix of labor skill categories needed to complete the work.

The key reason that established procedures were not followed is that many contracting officers were not even aware of GSA's requirement to seek competitive quotes. Also, guidance for the program is not clear. In particular, the Federal Acquisition Regulation does not make distinctions between services and products, and the regulations do not inform contracting officers that GSA's special ordering procedures for services even exist. Most contracting officers were not aware of the ordering procedures for services at the time the orders included in our survey were placed. In addition, the ordering procedures do not address whether sole-source orders are permitted and what procedures to use for such orders.

By not following the Federal Supply Schedule requirement for competitive quotes, DOD has significantly undermined its ability to ensure that it is getting the best information technology services at the best prices. Moreover, the lack of clear guidance on when to seek competitive quotes for services has increased the risk that agencies will not identify and acquire the lowest cost alternatives to meet their needs. This report makes recommendations for GSA and the Office of Federal Procurement Policy

aimed at promoting more competition for orders and providing additional guidance to agencies using the Federal Supply Schedule. GSA and the Office of Federal Procurement Policy agreed with our recommendations and their written comments are contained in appendixes III and IV.

Background

Over the past several years, the government has purchased billions of dollars each year in information technology products and services using the Federal Supply Schedule. The Schedule provides federal agencies with a simplified and streamlined process to obtain commonly used products and services at prices associated with volume buying. Sales under the Federal Supply Schedule for information technology services increased from \$1.2 billion in fiscal year 1998 to about \$4.4 billion in fiscal year 2000.

Under the Federal Supply Schedule, GSA awards contracts to multiple companies supplying comparable products and services. These contracts can be used by any federal agency to purchase commercial products and services. As a general rule, the Competition in Contracting Act of 1984 requires that orders under the Federal Supply Schedule result in the lowest overall cost alternative to meet the needs of the United States.³ The Federal Acquisition Regulation instructs government ordering offices to review catalogs or price lists of at least three contractors and place orders for the alternative that represents the best value and results in the lowest overall cost alternative (considering price, special features, etc.) to meet the agency's needs.

Traditionally, the Federal Supply Schedule covered only products, such as office equipment. In 1998, GSA issued special ordering procedures for services. At the time of our review, these procedures required ordering agencies to seek competitive quotes for services priced at hourly rates.⁴ Specifically, they were required to (1) prepare a request for quotes, (2) send the request for quotes to at least three Federal Supply Schedule contractors based on an initial evaluation of catalogs and price lists, and (3) evaluate the quotes and select the contractor to receive the order based on factors

³ If this requirement is met, and the program has been open to all responsible sources, the competition requirements of the Competition in Contracting Act are satisfied. See 10 U.S.C. § 2302(2)(C) and 41 U.S.C. § 259(b)(3).

⁴ In July 2000, GSA revised the ordering procedures for services. These procedures now apply to an order for services that requires a statement of work.

identified in the request. The ordering procedures also state that the office ordering the services (ordering office or program office) is responsible for considering the level of effort and mix of labor proposed to perform specific tasks and for making a determination that the total price is fair and reasonable.

Few Competing Quotes for Information Technology Orders

On 17 of the 22 orders we reviewed—totaling \$60.5 million—contracting officers did not solicit quotes because they were unaware of GSA's requirement to seek competitive quotes at the time the orders were placed. Rather than obtaining competitive quotes, in most cases, DOD contracting officers reviewed the hourly labor rates for various contractors listed on the Federal Supply Schedule and placed the orders. In four of these cases, DOD contracting officers believed there was only a single source that could meet the government's needs. In most of the cases, contracting officers used the Federal Supply Schedule as a convenient and quick way to place orders with incumbent contractors. Appendix II provides more detailed information on each of the 22 orders.

The Federal Acquisition Regulation provisions covering the Federal Supply Schedule do not provide clear guidance to contracting officers concerning the procedures to use to order services. The regulations do not make distinctions between services and products, and do not inform contracting officers that special ordering procedures for some types of services even exist. Equally important, GSA's current ordering procedures, which GSA now says apply to services that require a statement of work, do not specify the types of services for which a statement of work is required. During our review, GSA began the process to incorporate the ordering procedures for services into the Federal Acquisition Regulation.

Table 1 shows the extent that the government contracting officers at four locations (see app. I) that we visited sought competitive quotes on the 22 orders that we reviewed.

Table 1: Summary of Selected Orders

Location	Number of orders reviewed	Orders placed without seeking competitive quotes	
		Number	Value
Electronic Systems Center	5	0	0.0
Communications-Electronics Command	5	5	\$12.1
Space and Naval Warfare Systems Center	5	5	29.7
Defense Supply Service	7	7	18.7
Total	22	17	\$60.5

The table shows that only one of the four locations that we visited—the Electronics Systems Center at Hanscom Air Force Base—sought competitive quotes before placing an order for information technology services. The Center had developed a centralized program to manage its service contracts. Moreover, government contracting officers at the Center sought and received competitive quotes on the five orders selected for review. In placing the orders, the Center established criteria to evaluate the quotes and documented its decisions.

At the other three locations, DOD contracting officers did not seek competitive quotes before placing an order for information technology services. The following examples illustrate the steps that DOD contracting officers performed instead.

- Orders were placed with two incumbent contractors to continue providing information technology support services to the Office of the Secretary of the Air Force. For these orders, the DOD ordering office advised the contracting officer that the incumbent contractors were most familiar with the current systems and that loss of either would have a detrimental effect on their mission. In addition to estimates for the work by the incumbent contractors, the ordering office also provided the contracting officer with labor hour rates from the Federal Supply Schedule for two other contractors—both higher than the incumbent contractors. The contracting officer received quotes from only the two incumbent contractors. The government contracting officer issued orders for about \$3.1 million and about \$1.5 million to

these incumbent contractors. One of the contractors proposed labor rates that were substantially below its Federal Supply Schedule rates but consistent with rates charged for the prior year. The other contractor's rates were consistent with its schedule rates. In neither case did the contracting officer request price reductions. The contracting officer told us that they were unaware of the GSA ordering procedures that required competitive quotes. The contracting officer pointed out that they would have followed the ordering procedures for services had they been included in the Federal Acquisition Regulation.

- An order was placed with an incumbent contractor to continue software development work for the Defense Manpower Data Center. The contracting officer did not seek quotes from any contractors, including the incumbent contractor. Instead, the contracting officer relied on cost estimates developed by the Data Center for the incumbent contractor to continue providing information technology services for fiscal year 1999. The estimates also included labor rates from the Federal Supply Schedule for four additional contractors. Based on the labor rates, the total estimated costs for the four contractors were all higher than the incumbent contractor. Several weeks after receipt of the estimates, the contracting officer issued the \$2.7-million order to the incumbent. The order was based on the labor rates contained on the Federal Supply Schedule. The contracting officer did not request any price reductions.
- An order was placed with an incumbent contractor to provide information technology services in the design, development, integration, deployment, and maintenance of a military human resources system for DOD's Systems Executive Office for Manpower and Personnel. Again, unaware of the GSA ordering procedures, the contracting officer did not seek competitive quotes. The ordering office requested that the contracting officer place an order with the incumbent contractor under the Federal Supply Schedule. On this order, the contracting officer merely compared hourly labor rates for the incumbent contractor with hourly labor rates from the GSA schedule for two other contractors. The contracting officer obtained a quote from the incumbent contractor and placed an \$18.5 million order for 5 months of work. The contractor's quote was based on the contractor's labor rates (and its subcontractors' rates) contained on the Federal Supply Schedule but included a 2-percent price reduction. The contracting officer said that the contractor did not give any additional price reductions during negotiations.

In these examples and in other orders we reviewed, the contracting officers did not solicit quotes, as called for by GSA's ordering procedures, and

generally did not seek price reductions from contractors. Moreover, on 17 of the orders we reviewed, contracting officers often relied solely on labor rates to make a decision on acquiring information technology services. Such rates do not provide a meaningful basis for assessing which contractor is providing the best and most cost-effective services since they do not reflect the total cost of the order or important aspects such as the number of hours and mix of labor skill categories needed to complete the work. As a result, the DOD agencies included in our review did not have all of the information they should have had to determine that the total price of an order was fair and reasonable and that the order resulted in the lowest overall cost alternative meeting the needs of the agency, as required by the Competition in Contracting Act.

Sole-Source Orders

Four orders that we reviewed were placed on a sole-source basis. In each case, DOD ordering offices advised contracting officers that the incumbent contractors were the only contractors able to meet government needs. At the time these orders were placed, the ordering procedures for services did not contain any guidance on how sole-source orders should be handled. Although in the spring of 2000, GSA officials added to their buying guide a statement that sole-source orders are not authorized, this statement was not incorporated into the ordering procedures or the Federal Acquisition Regulation. On all four sole-source orders that we reviewed, contracting officers obtained statements from DOD program agencies concerning the need for services from the specific contractors, received a contractor's quote and made brief comparisons to the government estimate for labor and GSA-approved labor rates, and then processed the orders.

The following two examples illustrate how orders were placed with incumbent contractors for continued support of computer information systems.

- The ordering office (the Army's Office of the Surgeon General) sent a brief memorandum to the contracting officer recommending the incumbent contractor for an order. The memorandum stated that the contractor had performed satisfactorily and was uniquely qualified and experienced to provide continued support. The contracting officer considered this letter a noncompetitive sole-source justification. In placing this sole-source order, the contracting officer requested a quote from the incumbent contractor, had that quote evaluated by the ordering office, reviewed the incumbent's GSA-approved labor rates, and then processed the \$1.7-million order. The contractor's quote was based on

the labor rates listed on the Federal Supply Schedule, and the contracting officer did not request price reductions.

- The Office of the Secretary of Defense, Program Analysis and Evaluation, sent a memorandum to the contracting officer recommending the incumbent contractor for an order. The memorandum stated that changing its information technology support contractor would jeopardize several ongoing projects. Ordering office officials told us they did not view the memorandum as a noncompetitive sole-source justification, but rather a recommended source for their needs. In placing this order, the contracting officer requested a quote from the incumbent contractor, had that quote evaluated by the ordering office, reviewed the incumbent's GSA-approved labor rates, and then processed the \$4.3-million order. The contractor's quote was based on the labor rates contained on the Federal Supply Schedule. However, program officials and the contracting officer were able to negotiate labor rates that overall were about 4.4 percent below the labor rates contained on the Federal Supply Schedule.

Conclusions

Even though it spends millions of dollars each year to acquire information technology services through the Federal Supply Schedule, DOD has not been taking steps critical to ensuring that it is getting the best services at the best prices. The key reason for this is the lack of clear guidance for the program. Specifically, the Federal Acquisition Regulation does not indicate that special procedures should be used to order certain types of services, and does not describe those procedures and when they should be used. In addition, the Regulation does not provide any guidance on the use of the program for sole-source orders for services. The lack of clear guidance on when to seek competitive quotes increased the risk that agencies would not identify and acquire the lowest cost alternatives to meet their needs.

Recommendations for Executive Action

To encourage agencies to maximize competition in acquiring information technology services, we recommend that the Administrator of the Office of Federal Procurement Policy, as chair of the Federal Acquisition Regulatory Council, take steps to revise the Federal Acquisition Regulation to incorporate the requirements contained in the ordering procedures for services to obtain competitive quotes. The Regulation should clearly describe the procedures and when they should be used.

In addition, we recommend the Regulation address whether sole-source orders for services may be placed using the Federal Supply Schedule. If sole-source orders are allowed, the guidance should provide instructions on what steps contracting officers should take to ensure that prices are fair and reasonable and that orders result in the lowest overall cost alternative meeting the government's needs.

Pending these changes to the Regulation, we also recommend that the Administrator of General Services contact contracting agencies to ensure that the agencies are aware of the ordering procedures for services and emphasize the need for seeking competitive quotes.

Agency Comments and Our Evaluation

GSA, the Office of Federal Procurement Policy, and DOD reviewed a draft of this report. GSA's written comments are in appendix III and the Office of Federal Procurement Policy's comments are in appendix IV. DOD did not provide comments on this report.

GSA's written comments indicated that GSA has conducted a wide range of outreach efforts to educate agencies on the ordering procedures. These efforts, among other things, included making presentations at GSA seminars and enhancing the agency's website. GSA stated that it would continue its outreach programs and pursue additional efforts to educate agencies about ordering procedures and the best practices for managing their buys. Despite GSA's outreach efforts, contracting officers at three of four agencies included in this review were unaware of the special ordering procedures for services well after those procedures were put in place.

GSA agrees with our recommendation to revise the Federal Acquisition Regulation coverage pertaining to the ordering procedures for services. A draft proposed rule, currently being considered by the Federal Acquisition Regulation Council, proposes to revise the Regulation to include the ordering procedures for services. GSA also stated that it would ask the Council to review our recommendation regarding the treatment of sole-source orders for services under the program. GSA also provided a number of technical comments, which we considered in finalizing the report.

GSA's current ordering procedures apply to services that require a statement of work, but those procedures do not specify the types of services for which a statement of work is required. Under the circumstances, simply incorporating the current ordering procedures into

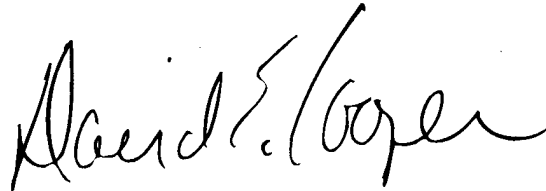
the Federal Acquisition Regulation would not satisfy our recommendation. Rather, as we recommended, the amended regulation should clearly describe procedures to be used for ordering various types of services and when those procedures should be used.

The Office of Federal Procurement Policy's written comments also indicated that they agreed with the recommendation to revise the Federal Acquisition Regulation pertaining to the ordering procedures for services. It stated that the current guidance in the Regulation provides insufficient attention to the acquisition of services. It stated that they would be working with the Federal Acquisition Regulatory Council to promulgate a proposed rule that addresses the recommendations in the report as well as some additional issues. It also stated that, in the meantime, it has been working with GSA and DOD on a discussion paper addressing the use of interagency contracts, such as contracts under the Federal Supply Schedule. The discussion paper will be incorporated into a handbook that DOD is developing to assist its buyers in acquiring commercial items.

We conducted our review from January through September 2000 in accordance with generally accepted government auditing standards.

We are sending copies of this report to Senator John Warner, Chairman, and Senator Carl Levin, Ranking Minority Member, Senate Committee on Armed Services, and other interested congressional committees. We are also sending copies of this report to the Honorable William S. Cohen, the Secretary of Defense; the Honorable David J. Barram, Administrator of General Services; and the Honorable Jacob J. Lew, Director, Office of Management and Budget. We will make copies available to others upon request.

Please contact me at (202) 512-4841 if you have any questions concerning this report. Key contributors to this report are listed in appendix V.

A handwritten signature in black ink, reading "David E. Cooper". The signature is fluid and cursive, with the first name "David" being the most prominent.

David E. Cooper
Director
Acquisition and Sourcing Management

Scope and Methodology

We conducted our evaluation to determine whether contracting officers maximized competition and followed established procedures in purchasing information technology services using the Federal Supply Schedule. We reviewed regulations and other General Services Administration (GSA) guidance issued for the Federal Supply Schedule. We also held discussions with GSA representatives to gain an understanding of the Federal Supply Schedule program. In addition, we met with representatives of the Office of Federal Procurement Policy, which is responsible for government policy on procurement programs. Further, we reviewed specific orders to assess whether contracting officers sought competitive quotes.

We identified the Department of Defense (DOD) buying commands that, in total, had made large information technology purchases of services during fiscal year 1999 under the Federal Supply Schedule program using DOD's Individual Contracting Action Report (DD-350 database). Results from this database were corroborated by the selected buying commands. The four DOD buying commands that were selected for our review were (1) the Air Force's Electronic Systems Center at Hanscom Air Force Base, (2) the Army's Communications-Electronics Command, (3) the Navy's Space and Naval Warfare Systems Center, and (4) the Defense Supply Service. In general, the largest orders were selected for review at the four buying commands. We selected the largest orders at each command until we had selected enough orders to exceed \$25 million in total value or we had selected all orders over \$1 million. However, we selected only one order for each contractor to ensure an array of various contractors and competitions. In total, 22 orders were selected for review, which represented about \$112.7 million. We did not assess whether DOD obtained fair and reasonable prices on these orders.

To determine the extent of competition on these orders, we held discussions with contracting officers and examined documentation in the contract files. We held discussions with representatives of the DOD agencies procuring the information technology services to understand their role in the award process. We also held discussions with officials of selected contractors to obtain information on the orders.

Information on Selected Orders

#	Customer/program contractor	Project value (\$ millions)	Competition for order	Incumbent contractor
Communication-Electronics Command				
1	Information Technology Support for Army Program Offices Computer Science Corporation	\$2.93	No competitive quotes	New requirement
2	Army Materiel Command Information Technology Scientific and Commercial Systems	\$1.11	No competitive quotes, review of labor rates	Yes
3	Drug Enforcement Administration Worldwide Local Area Network ManTech	\$3.68	No competitive quotes	New requirement
4	Army Systems Support for Strategic and Tactical Units Sytex Corporation	\$2.00	No competitive quotes	Yes
5	DOD Single Agency Manager Lockheed Martin Corporation	\$2.38	No competitive quotes	New requirement
Defense Supply Service				
6	Defense Data Manpower Center Systems Research and Applications Corporation	\$2.68	No competitive quotes, review of labor rates	Yes
7	Corporate Executive Information System Performance Engineering Corporation	\$1.74	No competitive quotes, sole-source	Yes
8	Office of the Secretary of Air Force Anser	\$3.14	No competitive quotes, review of labor rates	Yes
9	Office of the Secretary of Air Force Raytheon Corporation	\$1.55	No competitive quotes, review of labor rates	Yes
10	Office of the Secretary of Defense Program Analysis and Evaluation Advanced Systems Development, Incorporated	\$4.30	No competitive quotes, sole-source	Yes
11	Defense Medical Logistics Standard Support IBM Corporation	\$2.76	No competitive quotes, sole-source	Yes
12	Single Agency Manager – Pentagon Information Technology Services SETA Corporation	\$2.51	No competitive quotes, sole-source	Yes
Space and Naval Warfare Systems Center				
13	DOD Advanced Simulation Technology Programs AB Technologies, Incorporated	\$2.97	No competitive quotes, review of labor rates	New requirement
14	Defense Integrated Military Human Resource System Science and Engineering Associates	\$18.50	No competitive quotes, review of labor rates	Yes

**Appendix II
Information on Selected Orders**

(Continued From Previous Page)

#	Customer/program contractor	Project value (\$ millions)	Competition for order	Incumbent contractor
15	National Cancer Institute Medical Data Collection System Oracle Corporation	\$3.40	No competitive quotes, review of labor rates	New requirement
16	SPAWAR Automated Tool Design System Titan/Eldyne Corporation	\$1.80	No competitive quotes, review of labor rates	New requirement
17	SPAWAR Automated Data Processing System Science Applications International Corporation	\$3.07	No competitive quotes, review of labor rates	Yes
Electronic Systems Center at HANSCOM Air Force Base^a				
18	Global Air Traffic Operations Horizon Technology Corporation	\$8.00	Competitive quotes	New ^a requirement
19	Strategic Nuclear Deterrence SenCom	\$13.97	Competitive quotes	New ^a requirement
20	Defense Information Global Grid ASEC (now ACS)	\$3.34	Competitive quotes	New ^a requirement
21	Combat Air Force Command and Control Dynamics Research Corporation	\$15.10	Competitive quotes	New ^a requirement
22	Combat Air Force Command and Control KKP Corporation	\$11.80	Competitive quotes	New ^a requirement

^aAll cases at the Electronic Systems Center were categorized as new requirements because the statements of work consolidated work requirements that previously were completed by a number of contractors. Nevertheless, incumbent contractors generally completed a major portion of the work.

Comments From the General Services Administration

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



U.S. GENERAL SERVICES ADMINISTRATION
Federal Supply Service

November 9, 2000

Mr. David E. Cooper
Associate Director
Defense Acquisition Issues
General Accounting Office
Washington, DC 20548

Dear Mr. Cooper:

This letter is in response to your October 25, 2000 request for GSA comments on your draft report examining the acquisition of information technology services by the Department of Defense (DOD) through the General Services Administration's Multiple Award Schedule (MAS) Program. The MAS program has been one of the Government's largest and most dependable sources of commercial products and services since 1949. As indicated in the report, it provides agencies with a simplified and streamlined process to obtain commonly used products and services.

GSA is committed to providing acquisition vehicles, such as the MAS program, to enhance our customer's ability to perform both their present and future missions. To get the maximum benefit from the program, it is important for Federal customers to make sound business decisions and follow the MAS ordering regulations in the Federal Acquisition Regulation (FAR) and other guidance, such as special ordering procedures established by the Federal Supply Service (FSS).

As noted in the report, the acquisition process has changed the terms of how the government buys. The MAS program has undergone significant changes to provide a more dynamic, flexible, customer driven acquisition tool for the government to use. Because of the many changes in this program FSS has created a significant outreach program. FSS has devoted many resources to educating our customers through:

- GSA Expo's (More than 19,000 attendees)
- MAS Conferences
- U-MAS (virtual training)
- Mass mailings (i.e. Government Executive)(62,000 copies distributed)
- Letter to Senior Procurement Executives announcing changes

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**Appendix III
Comments From the General Services
Administration**

- Federal Supply Schedule Publications
- Market Tips (110,000 addressees on the distribution list)
- Numerous brochures, pamphlets, manuals
- Website coverage www.fss.gsa.gov (over 785,678 hits received annually))

GSA will continue these outreach programs and pursue additional efforts to educate customers about ordering procedures and best practices for managing their MAS buys.

GSA agrees with the recommendation to revise the FAR coverage pertaining to the ordering procedures for MAS to include services. A draft proposed FAR rule, currently being considered at the FAR Council, proposes to revise the FAR to include ordering procedures for services. GSA will ask the FAR Council to review your recommendation regarding the treatment of sole-source orders for services under the MAS program.

We appreciate the opportunity to offer comments on your report and would like you to consider some additional comments enclosed. We hope this report will encourage agencies to use the MAS programs in ways that best leverage their requirements. Thank you for the time spent on gathering this information and sharing it with us.

If you have any questions, please feel free to call me on 703/305-7901.

Sincerely,



Carolyn Alston
Assistant Commissioner
for Acquisition

Enclosure

GSA/FSS COMMENTS ON THE GAO DRAFT REPORT

1. Suggest changing the title of the report to ensure that the report will accurately convey the audit findings and recommendations. FSS suggests "Failure to Follow Safeguards Results in Little Assurance of Best Prices."

2. Page 4. The report notes that the FAR does not advise contracting officers of the presence of special ordering procedures. FAR 8.402, "Applicability" does address special ordering procedures. It states:

"Occasionally, GSA may establish special ordering procedures. The affected Federal Supply Schedules will outline these procedures."

The Information Technology Federal Supply Schedule noted these special ordering procedures. In fact, GSA created further requirements to include these ordering procedures in every Federal Supply Schedule publication. In addition, it is a requirement of the Information Technology solicitation that every GSA authorized contract pricelist must include the special ordering procedures for services.

3. Page 5. Statement that the "regulations also encourage agencies to seek price reductions for high volume orders" is incorrect. FAR 8.404(b)(3)(iii) states

"After seeking price reductions, place the order with the schedule contractor that provides the best value and results in the lowest overall cost alternative (see 8.404(a))."

4. Page 8, under the "Conclusions" paragraph. The first sentence states - "...ensuring that it is getting the best services at the best prices." It is difficult to truly ensure that "the best price" is ever obtained. Suggest changing this to "the best value".

See comment 1.

See comment 2.

**Appendix III
Comments From the General Services
Administration**

The following is GAO's comments on GSA's letter dated November 9, 2000.

GAO Comments

1. We changed the report title.
2. This statement has been deleted from the report.

Comments From the Office of Federal Procurement Policy



OFFICE OF FEDERAL
PROCUREMENT POLICY

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

November 16, 2000

Mr. David E. Cooper
Associate Director
Defense Acquisition Issues
General Accounting Office
Washington, DC 20548

Dear Mr. Cooper:

This letter is in response to your October 26, 2000 request for OMB's comment on your draft report examining the acquisition of information technology services by the Department of Defense (DOD) through the General Services Administration's Multiple Award Schedule (MAS) Program. As noted in your report, the MAS is a popular acquisition vehicle because it provides agencies with a simplified and streamlined process to obtain commonly used products and services from a large cadre of qualified vendors. Given the significant level of agency activity through the MAS, we are especially interested in ensuring that this program is managed strategically and used effectively by customers.

In order to facilitate effective mission attainment when buying services through the MAS, a customer should structure orders for services so that they are performance based (i.e., focusing on desired mission-related outcomes instead of emphasizing how the work is to be performed, and tying payment to the contractor's successes in achieving those outcomes). Equally important, customers must make effective use of competitive pressures when buying services – just as they must do when buying products. With respect to services in particular, customers should provide statements of work (SOWs) to multiple schedule contractors if the buy is over \$2,500. (GSA's special ordering procedures for services require customers to provide SOWs to three schedule contractors if the order is over \$2,500 and under the maximum order threshold (MO), and an appropriate additional number of contractors if the order exceeds the MO.)

Current guidance in the Federal Acquisition Regulation (FAR) on Schedule purchases, which was largely developed when the MAS were used almost exclusively for product buys, provides insufficient attention to the acquisition of services. For this reason, we agree with your recommendation calling for revised FAR coverage addressing the ordering of services. Clear guidance on the application of performance based contracting and the consideration of multiple contractors will result in more consistent customer application of these important principles. We envision customers routinely comparing alternative mixes of labor categories and levels of effort proposed by competing schedule contractors who wish to perform services described in the SOW, and then placing a firm-fixed-price order after determining that the total price for the order is fair and reasonable. These practices should motivate improved contractor performance at reduced contract prices.

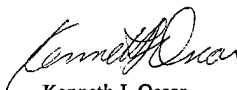
**Appendix IV
Comments From the Office of Federal
Procurement Policy**

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Development of a draft FAR rule is underway and we will be working with the FAR Council towards promulgation of a proposed rule that appropriately reflects the principles described above and the recommendations made in your report. In the meantime, we have been working with officials from GSA and DOD on a discussion paper addressing the effective use of inter-agency contracts, including MAS, for incorporation into a handbook that DOD is developing to assist its buyers in acquiring commercial items. The paper reiterates the need to take full advantage of competitive pressures – in the acquisition of both services and products – and the importance of using performance based statements of work. The paper will also point DOD customers to GSA's special operating procedures for services, which speak to these concepts. Once the handbook is issued, we intend to highlight this coverage to civilian agencies as a handy reference. By reiterating key principles, we hope the handbook will provide a better understanding of the respective roles and associated responsibilities of GSA and its customers with respect to the schedules. We also expect GSA to undertake outreach efforts to further educate their customers about ordering procedures and best practices for effectively managing Schedule buys.

We appreciate the opportunity to offer comments on your report. Effective contracting through MAS is an important objective and modifying the FAR to address the concepts discussed above will help agencies take better advantage of the benefits the MAS Program offers to effectively meet mission needs.

Sincerely,



Kenneth J. Oscar
Deputy Administrator (Acting)

GAO Contacts and Staff Acknowledgments

GAO Contacts

David E. Cooper (202) 512-4841
Ralph Dawn (202) 512-4544

Acknowledgments

In addition to those named above, Ken Graffam, Russ Reiter, Jeffrey Rose, Tom Taydus, and John Van Schaik made key contributions to this report.

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